

## APPENDIX G: STANDARDS FROM THE CHARITABLE/NONPROFIT WORLD IN GENERAL

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**Overview.** It appears from the research done for this project that both licensees and the Commission see charitable/nonprofit gambling as a specialized and unique form of fundraising. Nonetheless, the purpose of the authorized gambling activities is to raise funds for the stated purpose, and in that respect, C/NP gambling is similar to other nonprofit fundraising activities.

While all of the broader C/NP standards may not apply completely to C/NP gambling, they do offer benchmarks and comparison points that can stimulate new thinking and discussion.

There are more than 1 million C/NP organizations in the United States. The C/NP area accounts for one in eleven paid jobs, and if volunteer time is added in, accounts for one in every eight jobs. Today's nonprofit organizations utilize government and private funds and often earn income from some aspects of their operations. In Washington State, there are 5,262 charities, and 45,491 nonprofit corporations currently registered with the Secretary of State's office.

The overall charitable/nonprofit area is coming under increasing scrutiny, as governance and disclosure problems are identified. Donors and the public want to know that C/NP organizations are using funds wisely, are raising funds efficiently, and are providing cost-effective programs for the people they serve. These issues affect gambling licensees along with all other charitable and nonprofit organizations.

### **Better Business Bureau's Wise Giving Alliance standards:**

- **Spend at least 65% of total expenses on program activities.** This standard could be applied in two ways for C/NP gambling licensees. One is to see if 65% of total organizational expenses (gambling and non-gambling) are being spent on programs. This would assume that only 35% of total expenses are being incurred in the gambling operation.

The other is to measure if, for the non-gambling operation, 65% of the expenses are applied to program services. This assumes the other 35% is for administration and supporting services.

- **Total fundraising expenses should be no more than 35% of total related contributions.** In this project, an indicator was developed called "cost to raise" or CTR. It measures the cost to raise a dollar of net income in a gambling activity. It is computed by dividing reported expenses by reported net income.

Raffles are the only C/NP gambling activity that in the aggregate comes close to this 35% standard. Bingo and PB/PT are up in the \$3.00 and \$4.00 CTR. This means that licensees spend \$3.00 or \$4.00 (not counting prize payouts) to generate \$1.00 of net income.

There are two areas in typical C/NP fundraising where costs might be this high. One is in direct mail prospecting, where thousands of mailings are sent out with a very

small response (2-3% is considered good). The gain occurs when those respondents increase their gifts over time.

The other area is in special events, where an organization spends a great deal to create a unique event. Often these events are used for cultivation of donors or to thank supporters and the fundraising expectations are modest.

In effect, Bingo is like a continuous special event, requiring an ongoing high level of organizational effort and generating an ongoing level of high expenses.

- **A charity should be able to substantiate what portion of the “purchase price” (the player’s dollar) will benefit the charitable purpose.** For C/NP gambling activities, this would include the amount devoted to prize payouts as well as expenses. The Bingo or PB/PT player should know that, currently, for every gambling dollar s/he puts down, less than a dime will go for the stated purpose. If only the dollars for direct program services are counted, then less than a nickel may go for the stated purpose.
- **A charity should accurately report all expenses, including joint cost allocations.** The Commission currently does not specify standards for allocating costs among gambling activities for those licensees which operate more than one activity. As a result, it is difficult to understand the cost structure of Bingo as compared to PB/PT. The nature of PB/PT is such that, other than the cost of the games, the cost to operate PB/PT should be minimal. Yet licensees report substantial expenses attributed to PB/PT, sometimes to the point that CTR for PB/PT exceeds CTR for Bingo.
- **A charity should make available for all, on request, annual financial statements prepared in accordance with generally accepted accounting practices. When total gross income exceeds \$250,000, these statements should be audited in accordance with generally accepted accounting practices. For charities whose annual gross income is less than \$250,000, a review by a CPA is sufficient to meet this standard. For charities whose annual gross income is less than \$100,000, an internally produced, complete financial statement is sufficient.**

Some of the Commission’s licensees gross millions of dollars in their gambling operations, yet the Commission requires only that the licensee have a licensed accountant prepare the figures from the organization’s books.

- **Avoid accumulating funds that could be used for current program activities.** The Commission addresses this standard with its excess reserves rule. In this project, there were two situations where the financial reports reviewed (of the sample of 22 sets of financial reports reviewed) showed a very high overall net income for the total organization (gambling and non-gambling income) for the periods reviewed. If that income is not eventually spent on program activities, it will end up in reserves and may create an excess reserves issue.

**Other standards.** The charitable/nonprofit sector has additional “rule of thumb” standards that are applicable as well:

- **Diversified funding sources.** A strong charitable/nonprofit organization should have a diversity of funding sources. Ideally, one-third of the organization’s income should come from private fundraising, one-third from grants (government or private) and one-third from earned or program income.

While some nonprofits do not have this range of funding sources available, over-dependence on one funding source can leave an organization vulnerable if that funding source is threatened or lost. A significant number of the 22 sets of licensee financial reports examined for this project showed that the organizations received more than 50% of their total income from their gambling operations. Some received virtually all of their income from gambling. This calls into question their long-term survival as C/NP gambling continues to decline. It also calls into question their primary purpose, if they are unable to raise other funds for their stated purposes.

- **Donor disclosures.** Donors increasingly want to know where their dollars go, how much of their donation goes to administration, etc. Standards are being developed in the greater C/NP sector on donor disclosures. Both “cost to raise” and “percent to direct services” indicators mentioned above apply here.

It may be that C/NP gambling players are content with the costs and amounts that flow to the stated purpose. Disclosure of this information would verify this.

**Use of existing regulatory standards for charitable/nonprofit organizations.** The Commission can utilize existing requirements for C/NP organizations to organize its data base and assure that its licensees are complying with the basic governmental requirements for charitable and nonprofit organizations.

- **IRS stated purpose.** Virtually every organization that comes to the Commission seeking a gambling license has had to gain IRS approval for their C/NP status. The IRS code has a detailed list of 501 (c) organizations, each with its one definition and subsection in the code.

Currently the Commission’s records do not contain data that allows it to differentiate between charitable and nonprofit organizations. This data was not transferred from paper files when the computer system was upgraded.

Also, licensees can self-identify as many stated purposes as they wish in their license application, so the stated purpose information in the Commission’s data base is very inconsistent.

Over time, the Commission may wish to update its records by requiring each licensee to provide its IRS stated purpose information and most recent 501 (c) letter, as a way to organize this area better. Other states use the IRS definitions and criteria successfully

- **State registration.** There are two Washington State registration processes that are applicable to many C/NP licensees: registration as a corporation (for all licensees that are incorporated) and registration as a charity (for all licensees who seek funds from the public).

The Commission should require all C/NP licensees to provide documentation of their compliance with these requirements or a brief explanation of why the requirement is not applicable. State agencies can support each other in achieving a thoroughly-overseen and trustworthy charitable/nonprofit sector by coordinating their expectations about minimum standards and requirements.

In this project, it was noted that one large sports-related licensee was registered as a charity with the Secretary of State, with the required financial disclosures, while another similar sports-related licensee was not registered as a charity.

In response to further inquiry, Commission staff advised that the registration requirement (RCW) specifically excluded organizations that operate Bingo, Raffles or Amusement Games, unless they are also soliciting donations from the general public in addition to operating gambling activities. The Secretary of State's office advised that this exclusion was intended to reduce the reporting burden—if a licensee was covered by WSGC regulations, a member of the public could raise any concerns with the Commission. Requiring licensees to register also with the Secretary of State in effect would duplicate the WSGC licensing.

However, this raises another question. For the licensees who are not required to register with the Secretary of State, because they do not solicit funds from the general public—what percentage of their revenue comes from gambling operations? If a great deal of their revenue comes from gambling, is gambling their primary purpose?

Overall, there will be individual licensees for whom some of these standards may not apply. For example, the small, geographically remote organization that runs a Bingo operation, where the dollars from gambling constitute most of its revenue. This may be the only feasible way for the organization to raise funds in its setting, and may be the most efficient and community-building way to mobilize community support for its services.

However, the C/NP gambling sector should not assume that these broader standards do not generally apply in their situation, because the increased scrutiny of the C/NP area in general will carry over into the C/NP gambling sector.